



Are You Fed Up with Fed Forecasting? 05/10/2022

Just wait; you haven't seen anything yet. In September of 2021 the Fed had GDP up 3.8% and inflation at 3.3 for 2022. In December they took growth up to 4% with inflation falling to 2.6%.

Their latest (and I'm sure soon-to-be-revised) forecast in March has GDP falling back to 2.8% with inflation bubbling at a 4.3% clip. It would be a miracle if GDP had a 2% in front of it, no less than nearly a 3. And their inflation projection could be off by 50%. It should be painfully obvious that the only thing **transitory are their forecasts**.

Even leaving aside China, the combination of Covid, the supply chain issues, and the Russian invasion will keep the supply of just 5 products (there are much more) well short of demand. Fertilizer, potash, steel, wheat, and **neon**. The first 4 are obvious, but you need to learn more about **neon**. There is little we can do today to improve the supply of these products and they will have a big impact on inflation. We can, however, make an impact over a 24–36-month period. We need the equivalent of a domestic Marshall Plan to start to make a dent here.

If we don't, the Federal Reserve will do what they do to dampen demand by steadily raising rates (above their target estimates as of today). At best the Fed will push growth to well below 2% (1+% would be a moral victory), in which case we are quibbling as to whether we are entering a recession or not. Inflation could continue to increase 3-5 times the level of growth.

Democrats and Republicans: the clock is ticking.